

**STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT
OF**

**TOWN & COUNTRY LIFE INSURANCE COMPANY
OF**

SALT LAKE CITY, UTAH

AS OF

JUNE 30, 2003

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	1
Period Covered by Examination	1
Examination Procedure Employed	2
Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination	2
HISTORY	2
General	2
Capital Stock	3
Dividends to Stockholders	3
Management	3
Conflict of Interest Procedure	4
Corporate Records	4
Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales through Reinsurance	5
Surplus Debentures	5
AFFILIATED COMPANIES	5
FIDELITY BOND AND OTHER INSURANCE	6
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	6
STATUTORY DEPOSITS	6
INSURANCE PRODUCTS AND RELATED PRACTICES	6
Policy Forms and Underwriting	6
Territory and Plan of Operation	7
Advertising and Sales Material	7
Treatment of Policyholders	7
REINSURANCE	7
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENT	8
Balance Sheet	9
Summary of Operations	10
Capital and Surplus	11
COMMENTS ON FINANCIAL STATEMENT	12
CAPITAL AND SURPLUS	12
SUMMARY	13
CONCLUSION	14

December 17, 2003

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable John Morrison, Commissioner
Secretary, Western Zone, NAIC
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of June 30, 2003, of the financial condition and business affairs of

TOWN & COUNTRY LIFE INSURANCE COMPANY
of
Salt Lake City, Utah

a stock life insurance company, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1998. The current examination covers the period from January 1, 1999, through June 30, 2003, including any material transactions and/or events occurring subsequent to the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, and a determination of its financial condition as of June 30, 2003. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. These work papers were utilized by the examination on a limited basis in the verification of certain balance sheet accounts and as a supplement to the procedures performed during the examination.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination work papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company has addressed important points and recommendations noted in the prior examination report.

HISTORY

General

Town & Country Life Insurance Company of Texas was incorporated in the state of Texas on April 13, 1955. The Company redomesticated its operations to the state of Utah on April 15, 1986, and was granted a certificate of authority to transact the business of life and disability insurance. The Company's articles of domestication were approved on April 15, 1986, and amended on April 22, 1986, to reflect the present name of the Company.

As of June 30, 2003, the Company was authorized to transact life, annuity and disability insurance.

There were no amendments made to the bylaws or articles of incorporation during the examination period.

Capital Stock

The Company is authorized to issue 100,000 shares of common stock with a par value of \$10 per share. Eighty seven thousand, nine hundred and forty seven shares are issued and outstanding. The remaining 12,053 shares are treasury stock reacquired by the Company, for a total capital stock of \$1,000,000.

Hemingway Enterprises, Inc., owns 100% of the issued and outstanding common stock of the Company. Henry S. Hemingway is the ultimate controlling person of Hemingway Enterprises, Inc.

Dividends to Stockholders

The dividends to stockholders declared and paid during the examination period were as follows:

1999	\$	868,228
2000		660,164
2001		827,970
2002		796,922
2003		382,545
Total	\$	<u>3,535,829</u>

Management

Management of the Company is vested in its board of directors. As of June 30, 2003, the directors were as follows:

<u>Name and Location</u>	<u>Principal Occupation</u>
Henry Stranquist Hemingway Salt Lake City, Utah	Chairman and President Town & Country Life Insurance Company
Helen Hemingway Cardon Salt Lake City, Utah	Hemingway family member
Shirley Ann Hemingway Portland, Oregon	Hemingway family member

Jane Hemingway Mason
Hailey, Idaho

Hemingway family member

Mary Catherine Argus
Salt Lake City, Utah

Hemingway family member

David Edwin Bronson
North Ogden, Utah

Retired

Senior Officers serving the Company as of June 30, 2003, were:

Officer

Title

Henry Stranquist Hemingway

President

David Foulger Klomp

Secretary

Steven Ray Hymas

Vice President, Treasurer, & Assistant Secretary

Loan committee members as of June 30, 2003, were:

Henry Stranquist Hemingway

David Edwin Bronson

Conflict of Interest Procedure

During the period covered by the examination, directors or officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

Corporate records generated for and during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors and of the sole shareholder. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. The prior examination report, as of December 31, 1998, was distributed to the board on April 25, 2000.

During the examination period, two directors and two officers were removed from the Company. The Company did not immediately report these removals to the Department. Pursuant to U.C.A. §31A-5-410(2)(a), in November 2003, the Company reported the removal of these directors and officers to the Department.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

Surplus Debentures

The Company was not party to any surplus debentures during the examination period.

AFFILIATED COMPANIES

The Company is a member of the following insurance holding company system:

Henry S. Hemingway	
22%	
Hemingway Enterprises, Inc.	
100%	
Town & Country Life Insurance Company	

Insurance holding company registration statements as of December 31, 2002, were filed with the Department in 2003, pursuant to U.C.A. §31A-16-105.

In addition to the named insurance company, the Hemingway Family has ownership or partial ownership of other business entities, none of which are insurers.

In January 2000, the Company entered into a cost sharing agreement with its parent, Hemingway Enterprises, Inc. The agreement provided that the parent perform all administrative services necessary for the Company's continued operation. Reimbursement for services were paid by the Company to the parent on a percentage basis for salaries and general expenses.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than \$150,000. As of June 30, 2003, the Company had fidelity bond coverage of \$250,000.

The Company also had additional insurance protection against loss from property and liability risks.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no direct employees and is not a party to any type of retirement plan or deferred compensation plan.

STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-4-105, the Company was required, as of June 30, 2003, to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement was \$400,000 as determined by U.C.A. §31A-5-211(2)(a). Statutory deposits held through the Department for the primary benefit of all policyholders as of June 30, 2003, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	US Treasury Bonds 8.125%	\$ 347,851	\$ 515,484
	FHLB Securities 6.875%	997,136	1,086,250
	FHMA Notes 5.25%	250,937	276,953
Totals		<u>\$1,595,924</u>	<u>\$1,876,687</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company's principal lines of business are individual deferred and immediate annuities and ordinary and group life products which include keyman life coverage. As of June 30, 2003, the Company offered but did not actively solicit an individual life policy.

There were no policies assumed or directly placed by the Company during the examination period. The Company's retention limit is \$30,000 on any single risk.

Territory and Plan of Operation

The Company is authorized to transact life, annuity and disability insurance in the following states as of June 30, 2003:

Arizona	Illinois	Utah
Idaho	Oklahoma	

The life policies constitute the major portion of the Company's business which is principally written in Utah and Idaho. The Company pursued specific types of established blocks of life and annuity business to assume with the use of outside brokers, and have not pursued or solicited any individual business directly.

Advertising and Sales Material

The Company did not utilize any form of commercial advertising during the examination period.

Treatment of Policyholders

During the examination period, the examiners encountered no items of concern regarding treatment of policyholders. In addition, the Company maintained a complaint log to monitor complaints.

REINSURANCE

Assumed

The Company coinsures a quota share of group life insurance policies issued by National Benefit Life Insurance Company to the Beneficial Organization Trust in an agreement effective September 30, 1979. The treaty limits the Company's annual coinsurance premium to \$75,000. The aggregate of coinsurance premiums with all reinsurers cannot exceed ninety percent of the ceding company's earned premiums pursuant to the terms of the agreement.

Ceded

The Company cedes the net amount of risk over \$30,000 on its keyman whole life policies through a yearly renewable term reinsurance agreement with Beneficial Life Insurance Company.

ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, registers, and other records maintained by commercial software applications on a small personal computer network. Most accounting procedures were maintained manually, except for the general ledger, with retention of all hard copy documents and forms.

Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

The following record keeping deficiencies were noted by the examination:

- Property taxes on the YARC Partnership mortgage loan had not been paid for in the periods 2001, 2002, and 2003. It is recommended that the Company maintain property taxes on a current basis. No adjustment was made for examination purposes, since the unpaid amount was determined immaterial.
- The Company's asset valuation reserve (AVR) was not calculated according to the NAIC Annual Statement Instructions. It is recommended that the Company use required reserve factors for mortgage loans and common stocks in accordance with the Annual Statement Instructions. No adjustment was made, since the difference between the amount reported and determined for examination purposes was immaterial.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of June 30, 2003

Summary of Operations as of June 30, 2003

Capital and Surplus for the Years 1999 through June 30, 2003

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

TOWN & COUNTRY LIFE INSURANCE COMPANY
Balance Sheet as of
June 30, 2003

ASSETS

	<u>Amount</u>
Bonds	\$ 2,420,070
Preferred stocks	958,230
Common stocks	5,110,989
Mortgage loans on real estate	4,806,327
Cash and short-term investments	4,175,170
Contract loans	45,584
Investment income due and accrued	54,365
Amounts recoverable from reinsurers	8,102
Net deferred tax asset	30,032
	<hr/>
Total assets	<u><u>17,608,869</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserves for life contracts	7,783,394
Liability for deposit-type contracts	13,941
Contract claims: Life	12,323
Taxes, licenses, and fees due or accrued, excluding federal income taxes	4,164
Unearned investment income	1,594
Borrowed money	174,920
Asset valuation reserve	1,169,804
Aggregate write-ins for liabilities: Market value of call options sold	82,785
	<hr/>
Total liabilities	<u>9,242,925</u>
Common capital stock	1,000,000
Gross paid in and contributed surplus	100,000
Unassigned funds (surplus)	8,756,900
Less treasury stock, at cost:	<u>(1,490,956)</u>
	<hr/>
Total capital and surplus	<u>8,365,944</u>
	<hr/>
Total liabilities, capital and surplus	<u><u>\$ 17,608,869</u></u>

TOWN & COUNTRY LIFE INSURANCE COMPANY
Summary of Operations
as of June 30, 2003

Premium and annuity considerations for life and accident and health contracts	\$ 47,476
Net investment income	399,776
Aggregate write-ins for miscellaneous income	<u>2,023</u>
Total	<u>449,275</u>
Death benefits	19,085
Annuity benefits	48,542
Surrender benefits and withdrawals for life contracts	164,104
Interest and adjustments on contract or deposit-type contract funds	445
Payments on supplementary contracts with life contingencies	3,740
Increase in aggregate reserves for life and accident and health policies and contracts	<u>(27,592)</u>
Total	208,324
Commissions and expense allowances on reinsurance assumed	9,375
General insurance expenses	45,521
Insurance taxes, licenses and fees, excluding federal income taxes	<u>12,428</u>
Total	<u>275,648</u>
Net gains from operations before federal income taxes	173,627
Federal income taxes incurred	<u>5,223</u>
Net gains from operations after federal income taxes and before realized capital gains	168,404
Net realized capital gains or (losses)	<u>(291,256)</u>
Net income	<u><u>\$ (122,852)</u></u>

TOWN & COUNTRY LIFE INSURANCE COMPANY
Capital and Surplus
for the Years 1999 through June 30, 2003

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	June 30, <u>2003</u>
Capital and surplus, December 31, previous year	\$ 10,809,555	\$ 9,473,209	\$ 11,018,235	\$ 10,917,838	\$ 9,340,128
Net Income or (loss)	392,378	1,375,050	769,417	300,364	(122,852)
Change in net unrealized capital gains	388,513	(51,658)	(78,138)	(1,152,999)	797,085
Change in net deferred income tax			14,948	93,699	(76,080)
Change in nonadmitted assets	(400,406)	415,589	5,223	4,867	(1,074,410)
Change in asset valuation reserve	(848,603)	466,209	16,123	(26,719)	(115,382)
Dividends to stockholders	(868,228)	(660,164)	(827,970)	(796,922)	(382,545)
Net change in capital and surplus for the year	<u>(1,336,346)</u>	<u>1,545,026</u>	<u>(100,397)</u>	<u>(1,577,710)</u>	<u>(974,184)</u>
Capital and surplus, December 31, current year	<u>\$ 9,473,209</u>	<u>\$ 11,018,235</u>	<u>\$ 10,917,838</u>	<u>\$ 9,340,128</u>	<u>\$ 8,365,944</u>

COMMENTS ON FINANCIAL STATEMENT

Comments on the financial statements were not considered necessary by the examination.

CAPITAL AND SURPLUS

The capital and surplus reported by the Company in its 2nd Quarter 2003 regulatory financial statement blank was \$8,365,944. No adjustments were determined necessary for examination purposes.

U.C.A. §31A-5-211(2)(a) requires the Company to maintain minimum capital in the amount of \$400,000. The Company reported total adjusted capital of \$10,394,550 and an authorized control level risk-based capital (RBC) requirement of \$812,008 as of December 31, 2002. The examination determined total adjusted capital to be \$9,535,748 as of June 30, 2003.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. Accounts and records deficiencies were noted during the examination. (ACCOUNTS AND RECORDS)
2. U.C.A. §31A-5-211(2)(a) requires the Company to maintain minimum capital in the amount of \$400,000. The Company reported total adjusted capital of \$10,394,550 and an authorized control level risk-based capital (RBC) requirement of \$812,008 as of December 31, 2002. The examination determined total adjusted capital to be \$9,535,748 as of June 30, 2003. (CAPITAL AND SURPLUS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. Mr. Donald Catmull, AFE, representing the Utah Insurance Department, participated in the examination.

Respectfully submitted,

David A. Martinez, CFE
Examiner in Charge, representing the
Utah Insurance Department